

House File 2317 - Introduced

HOUSE FILE 2317

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 626)

A BILL FOR

1 An Act relating to state revenue and finance by modifying the
2 individual income tax, making appropriations, and including
3 effective date and applicability provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 DIVISION I

2 SALE OF CERTAIN QUALIFIED STOCK — NET CAPITAL GAIN EXCLUSION

3 Section 1. Section 422.7, Code 2022, is amended by adding
4 the following new subsection:

5 NEW SUBSECTION. 63. *a.* Subtract the following percentage
6 of the net capital gain from the sale or exchange of capital
7 stock of a qualified corporation for which an election is made
8 by an employee-owner:

9 (1) For the tax year beginning in the 2023 calendar year,
10 thirty-three percent.

11 (2) For the tax year beginning in the 2024 calendar year,
12 sixty-six percent.

13 (3) For tax years beginning on or after January 1, 2025, one
14 hundred percent.

15 *b.* (1) An employee-owner is entitled to make one
16 irrevocable lifetime election to exclude the net capital gain
17 from the sale or exchange of capital stock of one qualified
18 corporation which capital stock was acquired by the employee-
19 owner while employed and on account of employment by such
20 qualified corporation.

21 (2) The election shall apply to all subsequent sales
22 or exchanges of qualifying capital stock of the elected
23 corporation within fifteen years of the date of the election,
24 provided that the subsequent sales or exchanges were of capital
25 stock in the same qualified corporation and were acquired by
26 the employee-owner while employed and on account of employment
27 by such qualified corporation.

28 (3) The election shall apply to qualifying capital stock
29 that has been transferred by inter vivos gift from the
30 employee-owner to the employee-owner's spouse or to a trust
31 for the benefit of the employee-owner's spouse following the
32 transfer. This subparagraph (3) shall apply to a spouse
33 only if the spouse was married to the employee-owner on the
34 date of the sale or exchange or the date of death of the
35 employee-owner.

1 (4) If the employee-owner dies after having sold or
2 exchanged qualifying capital stock without having made an
3 election under this subsection, the surviving spouse or, if
4 there is no surviving spouse, the personal representative of
5 the employee-owner's estate, may make the election that would
6 have qualified under this subsection.

7 (5) The election shall be made in the manner and form
8 prescribed by the department and shall be included with the
9 taxpayer's state income tax return for the taxable year in
10 which the election is made.

11 c. For purposes of this subsection:

12 (1) "*Capital stock*" means common or preferred stock, either
13 voting or nonvoting. "*Capital stock*" does not include stock
14 rights, stock warrants, stock options, or debt securities.

15 (2) "*Employee-owner*" means an individual who owns capital
16 stock in a qualified corporation for at least ten years, which
17 capital stock was acquired by the individual while employed and
18 on account of employment by such corporation for at least ten
19 cumulative years.

20 (3) "*Personal representative*" means the same as defined in
21 section 633.3, or if there is no such personal representative
22 appointed, then the person legally authorized to perform
23 substantially the same functions.

24 (4) (a) "*Qualified corporation*" means, with respect to an
25 employee-owner, a corporation which, at the time of the first
26 sale or exchange for which an election is made by the employee-
27 owner under this subsection, meets all of the following
28 conditions:

29 (i) The corporation employed individuals in this state for
30 at least ten years.

31 (ii) The corporation has had at least five shareholders for
32 the ten years prior to the first sale or exchange under this
33 subsection.

34 (iii) The corporation has had at least two shareholders or
35 groups of shareholders who are not related for the ten years

1 prior to the first sale or exchange under this subsection.
 2 Two persons are considered related when, under section 318 of
 3 the Internal Revenue Code, one is a person who owns, directly
 4 or indirectly, capital stock that if directly owned would be
 5 attributed to the other person, or is the brother, sister,
 6 aunt, uncle, cousin, niece, or nephew of the other person who
 7 owns capital stock either directly or indirectly.

8 (b) "*Qualified corporation*" includes any member of an Iowa
 9 affiliated group if the Iowa affiliated group includes a member
 10 that has employed individuals in this state for at least ten
 11 years. For purposes of this subparagraph division, "*Iowa*
 12 *affiliated group*" means an affiliated group that has made a
 13 valid election to file an Iowa consolidated income tax return
 14 under section 422.37 in the year in which the deduction under
 15 this subsection is claimed. "*Member*" includes any entity
 16 included in the consolidated return under section 422.37,
 17 subsection 2, for the tax year in which the deduction is
 18 claimed.

19 (c) "*Qualified corporation*" also includes any corporation
 20 that was a party to a reorganization that was entirely or
 21 substantially tax free if such reorganization occurred during
 22 or after the employment of the employee-owner.

23 Sec. 2. EFFECTIVE DATE. This division of this Act takes
 24 effect January 1, 2023.

25 Sec. 3. APPLICABILITY. This division of this Act applies to
 26 tax years beginning on or after January 1, 2023.

27 DIVISION II

28 RETIRED FARMER LEASE INCOME EXCLUSION

29 Sec. 4. Section 422.7, Code 2022, is amended by adding the
 30 following new subsection:

31 NEW SUBSECTION. 21A. a. Subtract, to the extent included,
 32 net income received by an eligible individual pursuant to a
 33 farm tenancy agreement covering real property held by the
 34 eligible individual for ten or more years, if the eligible
 35 individual materially participated in a farming business for

1 ten or more years.

2 **b.** An individual who elects to exclude income received
3 pursuant to a farm tenancy agreement under this subsection
4 shall not claim any of the following in the tax year in which
5 the election is made or in any succeeding year:

6 (1) The capital gain exclusion under section 422.7,
7 subsection 21.

8 (2) The beginning farmer tax credit under section 422.11E.

9 **c.** Married individuals who file separate state income tax
10 returns shall allocate their combined annual exclusion limit
11 to each spouse in the proportion that each spouse's respective
12 net income from a farm tenancy agreement bears to the total net
13 income from a farm tenancy agreement.

14 **d.** The department shall establish criteria, by rule,
15 relating to whether and how a surviving spouse may claim the
16 income exclusion for which a deceased eligible individual would
17 have been eligible under this subsection.

18 **e.** Net income from a farm tenancy agreement earned,
19 received, or reported by an entity taxed as a partnership
20 for federal tax purposes, an S corporation, or a trust or
21 estate is not eligible for the election and deduction in this
22 subsection, even if such net income ultimately passes through
23 to an eligible individual.

24 **f.** For purposes of this subsection:

25 (1) "*Eligible individual*" means an individual who is
26 disabled or who is fifty-five years of age or older at the time
27 the election is made, who no longer materially participates in
28 a farming business at the time the election is made, and who,
29 as an owner-lessor, is party to a farm tenancy agreement.

30 (2) "*Farm tenancy agreement*" means a written agreement
31 outlining the rights and obligations of an owner-lessor and a
32 tenant-lessee where the tenant-lessee has a farm tenancy as
33 defined in section 562.1A. A "*farm tenancy agreement*" includes
34 cash leases, crop share leases, or livestock share leases.

35 (3) "*Farming business*" means the production, care, growing,

1 harvesting, preservation, handling, or storage of crops
2 or forest or fruit trees; the production, care, feeding,
3 management, and housing of livestock; or horticulture, all
4 intended for profit.

5 (4) "*Livestock*" means the same as defined in section 717.1.

6 (5) "*Materially participated*" means the same as "*material*
7 *participation*" in section 469(h) of the Internal Revenue Code.

8 Sec. 5. EFFECTIVE DATE. This division of this Act takes
9 effect January 1, 2023.

10 Sec. 6. APPLICABILITY. This division of this Act applies to
11 tax years beginning on or after January 1, 2023.

12 DIVISION III

13 RETIRED FARMER CAPITAL GAIN EXCLUSION

14 Sec. 7. Section 422.7, subsection 21, Code 2022, is amended
15 by striking the subsection and inserting in lieu thereof the
16 following:

17 21. a. For purposes of this subsection:

18 (1) "*Farming business*" means the production, care, growing,
19 harvesting, preservation, handling, or storage of crops
20 or forest or fruit trees; the production, care, feeding,
21 management, and housing of livestock; or horticulture, all for
22 intended profit.

23 (2) "*Held*" shall be determined with reference to the holding
24 period provisions of section 1223 of the Internal Revenue Code
25 and the federal regulations pursuant thereto.

26 (3) "*Livestock*" means the same as defined in section 717.1.

27 (4) "*Materially participated*" means the same as "*material*
28 *participation*" in section 469(h) of the Internal Revenue Code.

29 (5) (a) "*Real property used in a farming business*" means
30 all tracts of land and the improvements and structures located
31 on such tracts which are in good faith used primarily for
32 a farming business. Buildings which are primarily used or
33 intended for human habitation are deemed to be used in a
34 farming business when the building is located on or adjacent
35 to the parcel used in the farming business. Land and the

1 nonresidential improvements and structures located on such land
 2 that shall be considered to be used primarily in a farming
 3 business include but are not limited to land, improvements
 4 or structures used for the storage or maintenance of farm
 5 machinery or equipment, for the drying, storage, handling,
 6 or preservation of agricultural crops, or for the storage of
 7 farm inputs, feed, or manure. Real property used in a farming
 8 business shall also include woodland, wasteland, pastureland,
 9 and idled land used for the conservation of natural resources
 10 including soil and water.

11 (b) Real property classified as agricultural property for
 12 Iowa property tax purposes, except real property described
 13 in section 441.21, subsection 12, paragraph "a" or "b",
 14 shall be presumed to be real property used in a farming
 15 business. This presumption is rebuttable by the department by
 16 a preponderance of evidence that the real property did not meet
 17 the requirements of subparagraph division (a).

18 (6) "Relative" means a person that satisfies one or more of
 19 the following conditions:

20 (a) The individual is related to the taxpayer by
 21 consanguinity or affinity within the second degree as
 22 determined by common law.

23 (b) The individual is a lineal descendent of the taxpayer.
 24 For purposes of this subparagraph division, "lineal descendent"
 25 means children of the taxpayer, including legally adopted
 26 children and biological children, stepchildren, grandchildren,
 27 great-grandchildren, and any other lineal descendent of the
 28 taxpayer.

29 (c) An entity in which an individual who satisfies the
 30 conditions of either subparagraph division (a) or (b) has a
 31 legal or equitable interest as an owner, member, partner, or
 32 beneficiary.

33 (7) "Retired farmer" means an individual who is disabled
 34 or who is fifty-five years of age or older and who no longer
 35 materially participates in a farming business when an exclusion

1 and deduction is claimed under this subsection.

2 *b.* Subtract the net capital gain from the sale of real
3 property used in a farming business if one of the following
4 conditions are satisfied:

5 (1) The taxpayer has materially participated in a farming
6 business for a minimum of ten years and has held the real
7 property used in a farming business for a minimum of ten years.
8 If the taxpayer is a retired farmer, the taxpayer is considered
9 to meet the material participation requirement if the taxpayer
10 materially participated in a farming business for ten years or
11 more in the aggregate, prior to making an election under this
12 subsection.

13 (2) The taxpayer has held the real property used in a
14 farming business which is sold to a relative of the taxpayer.

15 *c.* For a taxpayer who is a retired farmer, subtract the
16 net capital gain from the sale of cattle or horses held by
17 the taxpayer for breeding, draft, dairy, or sporting purposes
18 for a period of twenty-four months or more from the date of
19 acquisition; but only if the taxpayer materially participated
20 in the farming business for five of the eight years preceding
21 the farmer's retirement or disability and who has sold all or
22 substantially all of the taxpayer's interest in the farming
23 business by the time the election under this paragraph is made.

24 *d.* For a taxpayer who is a retired farmer, subtract the net
25 capital gain from the sale of breeding livestock, other than
26 cattle and horses, if the livestock is held by the taxpayer for
27 a period of twelve months or more from the date of acquisition;
28 but only if the taxpayer materially participated in the farming
29 business for five of the eight years preceding the farmer's
30 retirement or disability and who has sold all or substantially
31 all of the taxpayer's interest in the farming business by the
32 time the election under this paragraph is made.

33 *e.* A taxpayer who is a retired farmer may make, subject to
34 the limitations described in paragraphs "*f*" and "*g*", a single,
35 lifetime election to exclude all qualifying capital gains under

1 paragraphs "b", "c", and "d".

2 *f.* A taxpayer who is a retired farmer who elects to exclude
3 capital gains under paragraph "b", "c", or "d" shall not claim
4 the beginning farmer tax credit under section 422.11E or the
5 exclusion for net income received pursuant to a farm tenancy
6 agreement in section 422.7, subsection 21A, in the tax year in
7 which this election is made or in any subsequent year.

8 *g.* A taxpayer who is a retired farmer who claims the
9 beginning farmer tax credit under section 422.11E shall not,
10 in the same year, make an election under this subsection. A
11 taxpayer who is a retired farmer and who elects to exclude
12 the net income received from a farm tenancy agreement under
13 section 422.7, subsection 21A, shall not, in the same tax year
14 or in any subsequent tax year, make the election under this
15 subsection.

16 *h.* Married individuals who file separate state income tax
17 returns shall allocate their combined annual net capital gain
18 exclusion under paragraphs "b", "c", and "d" to each spouse in
19 the proportion that each spouse's respective net capital gain
20 bears to the total net capital gain.

21 *i.* The department shall establish criteria, by rule,
22 relating to whether and how a surviving spouse may claim the
23 income exclusion for which a deceased retired farmer would have
24 been eligible under this subsection.

25 Sec. 8. REPEAL. 2018 Iowa Acts, chapter 1161, section 113,
26 is repealed.

27 Sec. 9. REPEAL. 2019 Iowa Acts, chapter 162, section 1, is
28 repealed.

29 Sec. 10. EFFECTIVE DATE. This division of this Act takes
30 effect January 1, 2023.

31 Sec. 11. APPLICABILITY.

32 1. This division of this Act applies to tax years beginning
33 on or after January 1, 2023.

34 2. This division of this Act applies to sales consummated on
35 or after the effective date of this division of this Act, and

1 sales consummated prior to the effective date of this division
2 of this Act shall be governed by the law as it existed prior to
3 the effective date of this division of this Act.

4 DIVISION IV

5 INDIVIDUAL INCOME TAX RATES — TAX YEARS 2023-2025

6 Sec. 12. Section 422.5, subsection 3, paragraph b, Code
7 2022, is amended to read as follows:

8 b. (1) In lieu of the computation in subsection 1 or
9 2, or in paragraph "a" of this subsection, if the married
10 persons', ~~filing jointly or filing separately on a combined~~
11 ~~return~~, head of household's, or surviving spouse's net income
12 exceeds thirteen thousand five hundred dollars, the regular
13 tax imposed under this subchapter shall be the lesser of the
14 ~~maximum~~ alternate state individual income tax rate specified in
15 subparagraph (2) times the portion of the net income in excess
16 of thirteen thousand five hundred dollars or the regular tax
17 liability computed without regard to this sentence. Taxpayers
18 electing to file separately shall compute the alternate tax
19 described in this paragraph using the total net income of the
20 ~~husband and wife~~ spouses. The alternate tax described in this
21 paragraph does not apply if one spouse elects to carry back or
22 carry forward the loss as provided in section 422.9, subsection
23 3.

24 (2) (a) (i) (A) For the tax year beginning on or after
25 January 1, 2023, but before January 1, 2024, the alternate tax
26 rate is 6.00 percent.

27 (B) For the tax year beginning on or after January 1, 2024,
28 but before January 1, 2025, the alternate tax rate is 5.70
29 percent.

30 (C) For the tax year beginning on or after January 1, 2025,
31 but before January 1, 2026, the alternate tax rate is 5.20
32 percent.

33 (ii) This subparagraph division (a) is repealed January 1,
34 2026.

35 (b) For tax years beginning on or after January 1, 2026, the

1 alternate tax rate is 4.50 percent.

2 Sec. 13. Section 422.5, subsection 3B, paragraph b, Code
3 2022, is amended to read as follows:

4 b. (1) In lieu of the computation in subsection 1, 2, or 3,
5 if the married persons', filing jointly ~~or filing separately on~~
6 ~~a combined return,~~ head of household's, or surviving spouse's
7 net income exceeds thirty-two thousand dollars, the regular
8 tax imposed under this subchapter shall be the lesser of the
9 ~~maximum~~ alternate state individual income tax rate specified in
10 subparagraph (2) times the portion of the net income in excess
11 of thirty-two thousand dollars or the regular tax liability
12 computed without regard to this sentence. Taxpayers electing
13 to file separately shall compute the alternate tax described in
14 this paragraph using the total net income of the ~~husband and~~
15 wife spouses. The alternate tax described in this paragraph
16 does not apply if one spouse elects to carry back or carry
17 forward the loss as provided in section 422.9, subsection 3.

18 (2) (a) (i) (A) For the tax year beginning on or after
19 January 1, 2023, but before January 1, 2024, the alternate tax
20 rate is 6.00 percent.

21 (B) For the tax year beginning on or after January 1, 2024,
22 but before January 1, 2025, the alternate tax rate is 5.70
23 percent.

24 (C) For the tax year beginning on or after January 1, 2025,
25 but before January 1, 2026, the alternate tax rate is 5.20
26 percent.

27 (ii) This subparagraph division (a) is repealed January 1,
28 2026.

29 (b) For tax years beginning on or after January 1, 2026, the
30 alternate tax rate is 4.50 percent.

31 Sec. 14. Section 422.5, subsection 6, Code 2022, is amended
32 to read as follows:

33 6. a. Upon determination of the latest cumulative inflation
34 factor, the director shall multiply each dollar amount set
35 forth in section 422.5A by this cumulative inflation factor,

1 shall round off the resulting product to the nearest one
2 dollar, and shall incorporate the result into the income tax
3 forms and instructions for each tax year.

4 b. This subsection is repealed on January 1, 2026.

5 Sec. 15. Section 422.5A, Code 2022, is amended by striking
6 the section and inserting in lieu thereof the following:

7 **422.5A Tax rates.**

8 1. a. The tax imposed in section 422.5 shall be calculated
9 using the following rates in the following tax years in the
10 case of married persons filing jointly:

11 (1) For the tax year beginning on or after January 1, 2023,
12 but before January 1, 2024:

13 (a) On taxable income from 0 through \$12,000, the rate of
14 4.40 percent.

15 (b) On taxable income exceeding \$12,000 but not exceeding
16 \$60,000, the rate of 4.82 percent.

17 (c) On taxable income exceeding \$60,000 but not exceeding
18 \$150,000, the rate of 5.70 percent.

19 (d) On taxable income exceeding \$150,000, the rate of 6.00
20 percent.

21 (2) For the tax year beginning on or after January 1, 2024,
22 but before January 1, 2025:

23 (a) On taxable income from 0 through \$12,000, the rate of
24 4.40 percent.

25 (b) On taxable income exceeding \$12,000 but not exceeding
26 \$60,000, the rate of 4.82 percent.

27 (c) On taxable income exceeding \$60,000, the rate of 5.70
28 percent.

29 (3) For the tax year beginning on or after January 1, 2025,
30 but before January 1, 2026:

31 (a) On taxable income from 0 through \$12,000, the rate of
32 4.40 percent.

33 (b) On taxable income exceeding \$12,000, the rate of 4.82
34 percent.

35 b. The tax imposed in section 422.5 shall be calculated

1 using the following rates in the following tax years in the
2 case of any other taxpayer other than married persons filing
3 jointly:

4 (1) For the tax year beginning on or after January 1, 2023,
5 but before January 1, 2024:

6 (a) On taxable income from 0 through \$6,000, the rate of
7 4.40 percent.

8 (b) On taxable income exceeding \$6,000 but not exceeding
9 \$30,000, the rate of 4.82 percent.

10 (c) On taxable income exceeding \$30,000 but not exceeding
11 \$75,000, the rate of 5.70 percent.

12 (d) On taxable income exceeding \$75,000, the rate of 6.00
13 percent.

14 (2) For the tax year beginning on or after January 1, 2024,
15 but before January 1, 2025:

16 (a) On taxable income from 0 through \$6,000, the rate of
17 4.40 percent.

18 (b) On taxable income exceeding \$6,000 but not exceeding
19 \$30,000, the rate of 4.82 percent.

20 (c) On taxable income exceeding \$30,000, the rate of 5.70
21 percent.

22 (3) For the tax year beginning on or after January 1, 2025,
23 but before January 1, 2026:

24 (a) On taxable income from 0 through \$6,000, the rate of
25 4.40 percent.

26 (b) On taxable income exceeding \$6,000, the rate of 4.82
27 percent.

28 2. This section is repealed January 1, 2026.

29 Sec. 16. REPEAL. 2018 Iowa Acts, chapter 1161, section 107,
30 is repealed.

31 Sec. 17. EFFECTIVE DATE. This division of this Act takes
32 effect January 1, 2023.

33 Sec. 18. APPLICABILITY. This division of this Act applies
34 to tax years beginning on or after January 1, 2023.

35 DIVISION V

1 INDIVIDUAL INCOME TAX — FLAT RATE

2 Sec. 19. Section 421.27, subsection 9, paragraph a,
3 subparagraph (3), Code 2022, is amended to read as follows:

4 (3) In the case of all other entities, including
5 corporations described in [section 422.36, subsection 5](#), and all
6 other entities required to file an information return under
7 section 422.15, subsection 2, the entity's Iowa net income
8 after the application of the Iowa business activity ratio,
9 if applicable, multiplied by the ~~top~~ income tax rate imposed
10 under [section 422.5A 422.5](#) for the tax year, less any Iowa tax
11 credits available to the entity.

12 Sec. 20. Section 422.5, subsection 1, paragraph a, Code
13 2022, is amended to read as follows:

14 a. A tax is imposed upon every resident and nonresident
15 of the state which tax shall be levied, collected, and paid
16 annually upon and with respect to the entire taxable income
17 as defined in [this subchapter](#) at ~~rates as provided in section~~
18 ~~422.5A~~ [a rate of four percent](#).

19 Sec. 21. Section 422.16B, subsection 2, paragraph a, Code
20 2022, is amended to read as follows:

21 a. (1) A pass-through entity shall file a composite return
22 on behalf of all nonresident members and shall report and pay
23 the income or franchise tax imposed under [this chapter](#) at the
24 maximum state income or franchise tax rate applicable to the
25 member under [section 422.5A 422.5](#), [422.33](#), or [422.63](#) on the
26 nonresident members' distributive shares of the income from the
27 pass-through entity.

28 (2) The tax rate applicable to a tiered pass-through entity
29 shall be the ~~maximum~~ state income tax rate under ~~section 422.5A~~
30 [422.5](#).

31 Sec. 22. Section 422.25A, subsection 5, paragraph c,
32 subparagraphs (3), (4), and (5), Code 2022, are amended to read
33 as follows:

34 (3) Determine the total distributive share of all final
35 federal partnership adjustments and positive reallocation

1 adjustments as modified by [this title](#) that are reported to
 2 nonresident individual partners and nonresident fiduciary
 3 partners and allocate and apportion such adjustments as
 4 provided in [section 422.33](#) at the partnership or tiered
 5 partner level, and multiply the resulting amount by the ~~maximum~~
 6 individual income tax rate pursuant to [section 422.5A 422.5](#) for
 7 the reviewed year.

8 (4) For the total distributive share of all final federal
 9 partnership adjustments and positive reallocation adjustments
 10 as modified by [this title](#) that are reported to tiered partners:

11 (a) Determine the amount of such adjustments which are of a
 12 type that would be subject to sourcing to Iowa under section
 13 422.8, subsection 2, paragraph "a", as a nonresident, and then
 14 determine the portion of this amount that would be sourced to
 15 Iowa under those provisions as if the tiered partner were a
 16 nonresident.

17 (b) Determine the amount of such adjustments which are of
 18 a type that would not be subject to sourcing to Iowa under
 19 section 422.8, subsection 2, paragraph "a", as a nonresident.

20 (c) Determine the portion of the amount in subparagraph
 21 division (b) that can be established, as prescribed by the
 22 department by rule, to be properly allocable to indirect
 23 partners that are nonresident partners or other partners not
 24 subject to tax on the adjustments.

25 (d) Multiply the total of the amounts determined in
 26 subparagraph divisions (a) and (b), reduced by any amount
 27 determined in subparagraph division (c), by the ~~highest~~
 28 individual income tax rate pursuant to [section 422.5A 422.5](#) for
 29 the reviewed year.

30 (5) For the total distributive share of all final federal
 31 partnership adjustments and positive reallocation adjustments
 32 as modified by [this title](#) that are reported to resident
 33 individual partners and resident fiduciary partners, multiply
 34 that amount by the ~~highest~~ individual income tax rate pursuant
 35 to [section 422.5A 422.5](#) for the reviewed year.

1 Sec. 23. EFFECTIVE DATE. This division of this Act takes
2 effect January 1, 2026.

3 Sec. 24. APPLICABILITY. This division of this Act applies
4 to tax years beginning on or after January 1, 2026.

5 DIVISION VI

6 RETIREMENT INCOME

7 Sec. 25. Section 8.57E, subsection 2, Code 2022, is amended
8 to read as follows:

9 2. Moneys in the taxpayer relief fund shall only be used
10 pursuant to appropriations or transfers made by the general
11 assembly for tax relief, ~~including but not limited to increases~~
12 ~~in the general retirement income exclusion under section 422.7,~~
13 ~~subsection 31,~~ or reductions in income tax rates.

14 Sec. 26. Section 422.5, subsection 3, paragraph a, Code
15 2022, is amended to read as follows:

16 a. The tax shall not be imposed on a resident or nonresident
17 whose net income, as defined in [section 422.7](#), is thirteen
18 thousand five hundred dollars or less in the case of married
19 persons filing jointly or filing separately on a combined
20 return, heads of household, and surviving spouses or nine
21 thousand dollars or less in the case of all other persons; but
22 in the event that the payment of tax under [this subchapter](#)
23 would reduce the net income to less than thirteen thousand five
24 hundred dollars or nine thousand dollars as applicable, then
25 the tax shall be reduced to that amount which would result
26 in allowing the taxpayer to retain a net income of thirteen
27 thousand five hundred dollars or nine thousand dollars as
28 applicable. The preceding sentence does not apply to estates
29 or trusts. For the purpose of [this subsection](#), the entire net
30 income, including any part of the net income not allocated
31 to Iowa, shall be taken into account. ~~For purposes of this~~
32 ~~subsection, net income includes all amounts of pensions or~~
33 ~~other retirement income, except for military retirement pay~~
34 ~~excluded under [section 422.7, subsection 31A](#), paragraph "a", or~~
35 ~~[section 422.7, subsection 31B](#), paragraph "a", received from any~~

1 ~~source which is not taxable under this subchapter as a result~~
2 ~~of the government pension exclusions in section 422.7, or any~~
3 ~~other state law.~~ If the combined net income of a husband and
4 wife exceeds thirteen thousand five hundred dollars, neither
5 of them shall receive the benefit of **this subsection**, and it
6 is immaterial whether they file a joint return or separate
7 returns. However, if a husband and wife file separate returns
8 and have a combined net income of thirteen thousand five
9 hundred dollars or less, neither spouse shall receive the
10 benefit of this paragraph, if one spouse has a net operating
11 loss and elects to carry back or carry forward the loss as
12 provided in **section 422.9, subsection 3**. A person who is
13 claimed as a dependent by another person as defined in section
14 422.12 shall not receive the benefit of **this subsection** if
15 the person claiming the dependent has net income exceeding
16 thirteen thousand five hundred dollars or nine thousand dollars
17 as applicable or the person claiming the dependent and the
18 person's spouse have combined net income exceeding thirteen
19 thousand five hundred dollars or nine thousand dollars as
20 applicable.

21 Sec. 27. Section 422.5, subsection 3B, paragraph a, Code
22 2022, is amended to read as follows:

23 a. The tax shall not be imposed on a resident or nonresident
24 who is at least sixty-five years old on December 31 of
25 the tax year and whose net income, as defined in section
26 422.7, is thirty-two thousand dollars or less in the case
27 of married persons filing jointly or filing separately on a
28 combined return, heads of household, and surviving spouses or
29 twenty-four thousand dollars or less in the case of all other
30 persons; but in the event that the payment of tax under this
31 subchapter would reduce the net income to less than thirty-two
32 thousand dollars or twenty-four thousand dollars as applicable,
33 then the tax shall be reduced to that amount which would result
34 in allowing the taxpayer to retain a net income of thirty-two
35 thousand dollars or twenty-four thousand dollars as applicable.

1 The preceding sentence does not apply to estates or trusts.
 2 For the purpose of [this subsection](#), the entire net income,
 3 including any part of the net income not allocated to Iowa,
 4 shall be taken into account. ~~For purposes of [this subsection](#),~~
 5 ~~net income includes all amounts of pensions or other retirement~~
 6 ~~income, except for military retirement pay excluded under~~
 7 ~~[section 422.7, subsection 31A](#), paragraph "a", or section 422.7,~~
 8 ~~subsection 31B, paragraph "a", received from any source which is~~
 9 ~~not taxable under [this subchapter](#) as a result of the government~~
 10 ~~pension exclusions in [section 422.7](#), or any other state law.~~
 11 If the combined net income of a husband and wife exceeds
 12 thirty-two thousand dollars, neither of them shall receive the
 13 benefit of [this subsection](#), and it is immaterial whether they
 14 file a joint return or separate returns. However, if a husband
 15 and wife file separate returns and have a combined net income
 16 of thirty-two thousand dollars or less, neither spouse shall
 17 receive the benefit of this paragraph, if one spouse has a net
 18 operating loss and elects to carry back or carry forward the
 19 loss as provided in [section 422.9, subsection 3](#). A person
 20 who is claimed as a dependent by another person as defined in
 21 section 422.12 shall not receive the benefit of [this subsection](#)
 22 if the person claiming the dependent has net income exceeding
 23 thirty-two thousand dollars or twenty-four thousand dollars
 24 as applicable or the person claiming the dependent and the
 25 person's spouse have combined net income exceeding thirty-two
 26 thousand dollars or twenty-four thousand dollars as applicable.
 27 Sec. 28. Section 422.7, subsection 31, Code 2022, is amended
 28 to read as follows:
 29 31. a. ~~For a person who is disabled, or is fifty-five years~~
 30 ~~of age or older, or is the surviving spouse of an individual or~~
 31 ~~a survivor having an insurable interest in an individual who~~
 32 ~~would have qualified for the exemption under this subsection~~
 33 ~~for the tax year, subtract Subtract, to the extent included,~~
 34 the total amount of received from a governmental or other
 35 pension or retirement pay plan, including, ~~but not limited~~

1 ~~to~~, defined benefit or defined contribution plans, annuities,
 2 individual retirement accounts, plans maintained or contributed
 3 to by an employer, or maintained or contributed to by a
 4 self-employed person as an employer, and deferred compensation
 5 plans or any earnings attributable to the deferred compensation
 6 plans, ~~up to a maximum of six thousand dollars for a person,~~
 7 ~~other than a husband or wife, who files a separate state income~~
 8 ~~tax return and up to a maximum of twelve thousand dollars~~
 9 ~~for a husband and wife who file a joint state income tax~~
 10 ~~return. However, a surviving spouse who is not disabled or~~
 11 ~~fifty-five years of age or older can only exclude the amount~~
 12 ~~of pension or retirement pay received as a result of the death~~
 13 ~~of the other spouse. A husband and wife filing separate state~~
 14 ~~income tax returns or separately on a combined state return~~
 15 ~~are allowed a combined maximum exclusion under this subsection~~
 16 ~~of up to twelve thousand dollars. The twelve thousand dollar~~
 17 ~~exclusion shall be allocated to the husband or wife in the~~
 18 ~~proportion that each spouse's respective pension and retirement~~
 19 ~~pay received bears to total combined pension and retirement~~
 20 ~~pay received~~ received by a person who is disabled, or is
 21 fifty-five years of age or older, or is the surviving spouse of
 22 an individual or is a survivor having an insurable interest in
 23 an individual who would have qualified for the exemption under
 24 this subsection for the tax year.

25 b. Married taxpayers who file separate state income tax
 26 returns shall allocate their combined annual exclusion amount
 27 to each spouse in the proportion that each spouse's respective
 28 income received from a pension or retirement plan bears to the
 29 total combined pension or retirement pay received.

30 c. A taxpayer who is not disabled or fifty-five years of
 31 age or older and who receives pension or retirement pay as a
 32 surviving spouse or as a survivor with an insurable interest
 33 in an individual who would have qualified for the exemption
 34 for the tax year may only exclude the amount received from a
 35 pension or retirement plan in the tax year as a result of the

1 death of the decedent.

2 Sec. 29. EFFECTIVE DATE. This division of this Act takes
3 effect January 1, 2023.

4 Sec. 30. APPLICABILITY. This division of this Act applies
5 to tax years beginning on or after January 1, 2023.

6 DIVISION VII

7 TAXPAYER RELIEF FUND

8 Sec. 31. Section 8.57E, Code 2022, is amended by adding the
9 following new subsection:

10 NEW SUBSECTION. 5. *a.* For the purposes of tax relief
11 provided in this Act, the following amounts shall be
12 transferred from the taxpayer relief fund to the general fund
13 of the state for the following fiscal years:

14 (1) For the fiscal year beginning July 1, 2022, and ending
15 June 30, 2023, one hundred thirteen million dollars.

16 (2) For the fiscal year beginning July 1, 2023, and ending
17 June 30, 2024, one hundred fifty-nine million one hundred
18 thousand dollars.

19 (3) For the fiscal year beginning July 1, 2024, and ending
20 June 30, 2025, ninety-two million three hundred thousand
21 dollars.

22 (4) For the fiscal year beginning July 1, 2025, and ending
23 June 30, 2026, two hundred fifty-nine million four hundred
24 thousand dollars.

25 (5) For the fiscal year beginning July 1, 2026, and ending
26 June 30, 2027, one hundred ninety-five million six hundred
27 thousand dollars.

28 (6) For the fiscal year beginning July 1, 2027, and ending
29 June 30, 2028, nine million six hundred thousand dollars.

30 *b.* This subsection is repealed July 1, 2028.

31 EXPLANATION

32 The inclusion of this explanation does not constitute agreement with
33 the explanation's substance by the members of the general assembly.

34 This bill relates to state revenue and finance by modifying
35 the individual income tax and making appropriations.

1 DIVISION I — SALE OF CERTAIN QUALIFIED STOCK — NET
2 CAPITAL GAIN EXCLUSION. The bill grants an employee-owner one
3 irrevocable lifetime election to exclude from state individual
4 income tax the net capital gain from the state of the capital
5 stock on one qualified corporation. The election applies to
6 all subsequent sales or exchanges of capital stock.

7 The bill phases in over a three-year period the complete
8 exclusion from the individual income tax the net capital gain
9 from the sale of capital stock on one qualified corporation.
10 The percentage of the capital gain that is excluded for tax
11 years beginning in 2023, 2024, and 2025 and beyond is 33
12 percent, 66 percent, and 100 percent, respectively. Several
13 requirements must be met for the capital stock to qualify
14 as capital stock of a qualified corporation. The qualified
15 corporation must have employed individuals in this state for
16 at least 10 years. The qualified corporation must have had at
17 least five shareholders for the 10 years prior to the first
18 sale or exchange pursuant to the bill, and the corporation must
19 have had at least two shareholders or groups of shareholders
20 who are not related for the 10 years prior to the sale or
21 exchange. The bill requires the capital stock to be common or
22 preferred stock, and may be either voting or nonvoting, but
23 does not include warrants, stock options, or debt securities.

24 The bill provides that the election applies to transfers of
25 the capital stock by inter vivos gift from the employee-owner
26 to a spouse, or to a trust for the benefit of the
27 employee-owner's spouse. The election will apply to a spouse
28 only if the spouse was married to the employee-owner on the
29 date of the sale or the date of the employee-owner's death.

30 If, after making a valid inter vivos gift of stock that meets
31 all the requirements for an election, an employee-owner dies
32 without making an election, the surviving spouse, or if there
33 is no surviving spouse, the personal representative of the
34 employee-owner's estate, may make the election.

35 An election under the bill is made on a form prescribed by

1 the department of revenue and included with the taxpayer's
2 state income tax return for the taxable year in which the
3 election is made.

4 The division takes effect January 1, 2023, and applies to tax
5 years beginning on or after that date.

6 DIVISION II — RETIRED FARMER LEASE INCOME EXCLUSION.

7 Commencing with tax years beginning on or after January 1,
8 2023, the bill excludes from the individual income tax a
9 retired farmer's total net income received pursuant to a
10 farm tenancy agreement covering real property held by the
11 retired farmer for 10 or more years, if the farmer materially
12 participated in a farming business for 10 or more years.

13 Net income from a farm tenancy agreement earned by an
14 entity taxed as a partnership for federal tax purposes, an S
15 corporation, or a trust or estate is not eligible for the lease
16 income exclusion, even if the net income passes through to a
17 retired farmer.

18 A retired farmer is not eligible for the lease income
19 exclusion unless the farmer is at least 55 years of age and no
20 longer materially participating in farming.

21 A retired farmer who elects to claim the lease income
22 exclusion is not eligible, in the tax year the election is made
23 or in succeeding tax years, to claim the capital gain exclusion
24 under Code section 422.7(21), as amended by another division of
25 the bill, or the beginning farmer tax credit.

26 The division takes effect January 1, 2023, and applies to tax
27 years beginning on or after that date.

28 DIVISION III — RETIRED FARMER CAPITAL GAIN EXCLUSION. The
29 bill modifies the individual income tax capital gain exclusion
30 for the sale of real property used in a farming business which
31 otherwise would have gone into effect in tax year 2023, which
32 was enacted in 2018 Iowa Acts, chapter 1161, section 113,
33 and later modified in 2019 Iowa Acts, chapter 162. The bill
34 repeals both 2018 Iowa Acts, chapter 1161, section 113, and
35 2019 Iowa Acts, chapter 162, and creates a new capital gain

1 exclusion provision based upon the 2019 Iowa Acts, chapter
2 162 provisions, effective for tax years beginning on or after
3 January 1, 2023.

4 Under the provisions in 2019 Iowa Acts, chapter 162, section
5 1, which otherwise would have gone into effect during the 2023
6 tax year, a taxpayer who materially participates in a farming
7 business for at least 10 years and held real property used
8 in such a business for at least 10 years, may make a single
9 lifetime exclusion election from the individual income tax of
10 the capital gain of the sale of such property.

11 The bill modifies the term "materially participated" in a
12 farming business to include a retired farmer if the retired
13 farmer materially participated in a farming business for 10
14 years or more, in the aggregate, prior to making the election
15 to exclude the capital gain of the sale of real property used
16 in a farming business.

17 In addition to a single lifetime exclusion of the capital
18 gain from the sale of real property used in a farming business,
19 the bill also allows a retired farmer to make a single lifetime
20 exclusion of the net capital gain from the sale of cattle
21 or horses if held by the retired farmer for breeding, draft,
22 dairy, or sporting purposes for more than 24 months, and
23 only if the retired farmer materially participated in the
24 farming business for five of the eight years preceding the
25 retired farmer's retirement or disability, and who sold all
26 or substantially all of the retired farmer's interest in the
27 farming business by the time the election to exclude capital
28 gain of the sale of livestock from the individual income tax
29 is made.

30 Additionally, the bill allows a retired farmer to make a
31 single lifetime exclusion of the net capital gain from the
32 sale of breeding livestock, other than cattle and horses, if
33 the livestock is held by the retired farmer for more than 12
34 months, and only if the retired farmer materially participated
35 in the farming business for five of the eight years preceding

1 the retired farmer's retirement or disability, and who sold all
 2 or substantially all of the retired farmer's interest in the
 3 farming business by the time the election to exclude capital
 4 gain of the sale of livestock from the individual income tax
 5 is made.

6 Under the bill, a retired farmer is not eligible for the
 7 capital gain exclusion if the retired farmer claims the
 8 beginning farmer tax credit in the same tax year. A retired
 9 farmer electing the capital gain exclusion is not eligible to
 10 elect to exclude retired farmer lease income in the same tax
 11 year or any succeeding tax year.

12 The division takes effect January 1, 2023, and applies to
 13 sales consummated on or after that date.

14 For sales consummated prior to January 1, 2023, the existing
 15 law in Code section 422.7(21) shall govern.

16 DIVISION IV — INDIVIDUAL INCOME TAX — TAX YEARS 2023-2025.
 17 The bill repeals the individual income tax rates and brackets
 18 described in 2018 Iowa Acts, chapter 1161, section 107, which
 19 otherwise would have gone into effect January 1, 2023, and
 20 strikes and replaces the individual income tax rates and
 21 brackets for the tax year beginning January 1, 2023, in Code
 22 section 422.5A. The bill reduces individual income tax rates
 23 beginning with the 2023 tax year, and reduces the number of
 24 individual income tax brackets beginning with the 2024 tax
 25 year. The modified individual income tax rates and brackets
 26 are as follows:

27 For the 2023 tax year:

28 Married filing jointly

29	Income over:	But not over:	Tax Rate:
30	1) \$0	\$12,000	4.40%
31	2) \$12,000	\$60,000	4.82%
32	3) \$60,000	\$150,000	5.70%
33	4) \$150,000		6.00%

34 All other filers other than married filing jointly

35	Income over:	But not over:	Tax Rate:
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1	1) \$0	\$6,000	4.40%
2	2) \$6,000	\$30,000	4.82%
3	3) \$30,000	\$75,000	5.70%
4	4) \$75,000		6.00%

5 For the 2024 tax year:

6 Married filing jointly

7	Income over:	But not over:	Tax Rate:
8	1) \$0	\$12,000	4.40%
9	2) \$12,000	\$60,000	4.82%
10	3) \$60,000		5.70%

11 All other filers other than married filing jointly

12	Income over:	But not over:	Tax Rate:
13	1) \$0	\$6,000	4.40%
14	2) \$6,000	\$30,000	4.82%
15	3) \$30,000		5.70%

16 For the 2025 tax year:

17 Married filing jointly

18	Income over:	But not over:	Tax Rate:
19	1) \$0	\$12,000	4.40%
20	2) \$12,000		4.82%

21 All other filers other than married filing jointly

22	Income over:	But not over:	Tax Rate:
23	1) \$0	\$6,000	4.40%
24	2) \$6,000		4.82%

25 Currently, an alternate income tax calculation exists
 26 in Code section 422.5. The alternate income tax is an
 27 alternate method of calculating income tax liability in lieu
 28 of the regular income tax calculation. The alternate method
 29 multiplies the taxpayer's taxable income above the income tax
 30 filing thresholds in Code section 422.5(3)(b) or 422.5(3B)(b)
 31 by the highest existing individual income tax rate until
 32 the taxpayer's tax liability is equal to the tax liability
 33 that would have been calculated under the regular income tax
 34 calculation method, then after such point the regular income
 35 tax calculation with the regular income tax rates are used.

1 The bill phases in changes to the alternate tax rate until the
2 rate is set at 4.50 percent commencing with tax years beginning
3 on or after January 1, 2026.

4 The division takes effect January 1, 2023, and applies to tax
5 years beginning on or after that date.

6 DIVISION V — INDIVIDUAL INCOME TAX — FLAT RATE. Commencing
7 with tax years beginning on or after January 1, 2026, the
8 bill establishes a flat 4.00 percent individual income tax
9 rate on all taxable income and moves the individual income
10 tax rate from Code section 422.5A to Code section 422.5. The
11 division takes effect January 1, 2026, and applies to tax years
12 beginning on or after that date.

13 DIVISION VI — RETIREMENT INCOME EXCLUSION. Under current
14 law, a taxpayer who is disabled, who is at least 55 years of
15 age, or who is the surviving spouse or other specified survivor
16 of that qualifying taxpayer, may exclude a maximum of \$6,000 of
17 other retirement income (\$12,000 for married persons).

18 Commencing with tax years beginning January 1, 2023, the
19 bill excludes retirement income from the computation of net
20 income for purposes of the individual income tax. In order
21 to be eligible for the retirement income exclusion, a person
22 must be disabled, at least 55 years of age, or be the surviving
23 spouse of an individual or be a survivor having an insurable
24 interest in an individual who would have qualified for the
25 retirement income exclusion.

26 The bill does not change current law allowing a taxpayer
27 to exclude all retirement pay, including certain survivor
28 benefits, received from the federal government for military
29 service performed in the armed forces, the armed forces
30 military reserve, or national guard.

31 The bill strikes a provision permitting moneys in the
32 taxpayer relief fund to be used for increases in the general
33 retirement income exclusions in Code section 422.7(31) because
34 the bill provides for the complete exclusion of such retirement
35 income.

1 The bill also excludes this retirement income from the
2 calculation of net income for purposes of determining whether
3 or not a taxpayer's net income exceeds the amount at which the
4 individual income tax will not be imposed pursuant to Code
5 section 422.5(3) or 422.5(3B), and for which an individual
6 income tax return is not required to be filed, and for purposes
7 of calculating the alternate tax in Code section 422.5, and
8 further provides that any retirement income excluded from
9 the individual income tax will not be added back to these
10 calculations for tax years beginning in 2023 or later.

11 The division takes effect January 1, 2023, and applies to tax
12 years beginning on or after that date.

13 DIVISION VII — TAXPAYER RELIEF FUND. For each of the next
14 six fiscal years, the bill transfers from the taxpayer relief
15 fund to the general fund of the state the following amounts:
16 for FY 2022-2023, \$113 million; for FY 2023-2024, \$159.1
17 million; for FY 2024-2025, \$92.3 million; for FY 2025-2026,
18 \$259.4 million; for FY 2026-2027, \$195.6 million; for FY
19 2027-2028, \$9.6 million.